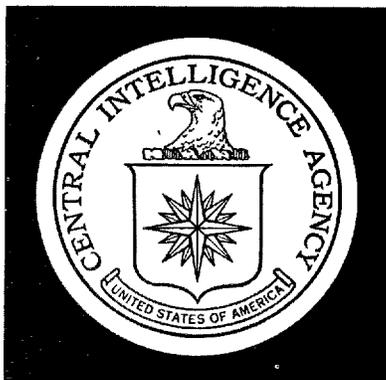


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South Vietnam: Scattered ground actions highlighted the military scene in South Vietnam on 1 and 2 May.

US and South Vietnamese forces killed 103 Communists in separate battles just below the Demilitarized Zone. In III Corps, a South Vietnamese night defensive position was hit by a mortar barrage and a followup ground attack. In the four-hour battle, 54 Communists were killed and 37 enemy weapons were captured. The South Vietnamese lost seven killed and 41 wounded.

Six miles south of An Loc in Binh Long Province, a US supply convoy was ambushed on 2 May. Preliminary reports show one US soldier killed, 12 wounded, six tank trucks and two heavy trucks destroyed, and four other trucks heavily damaged. In the delta provinces of Ba Xuyen and An Xuyen, two separate clashes between South Vietnamese and Viet Cong forces resulted in 43 enemy killed.

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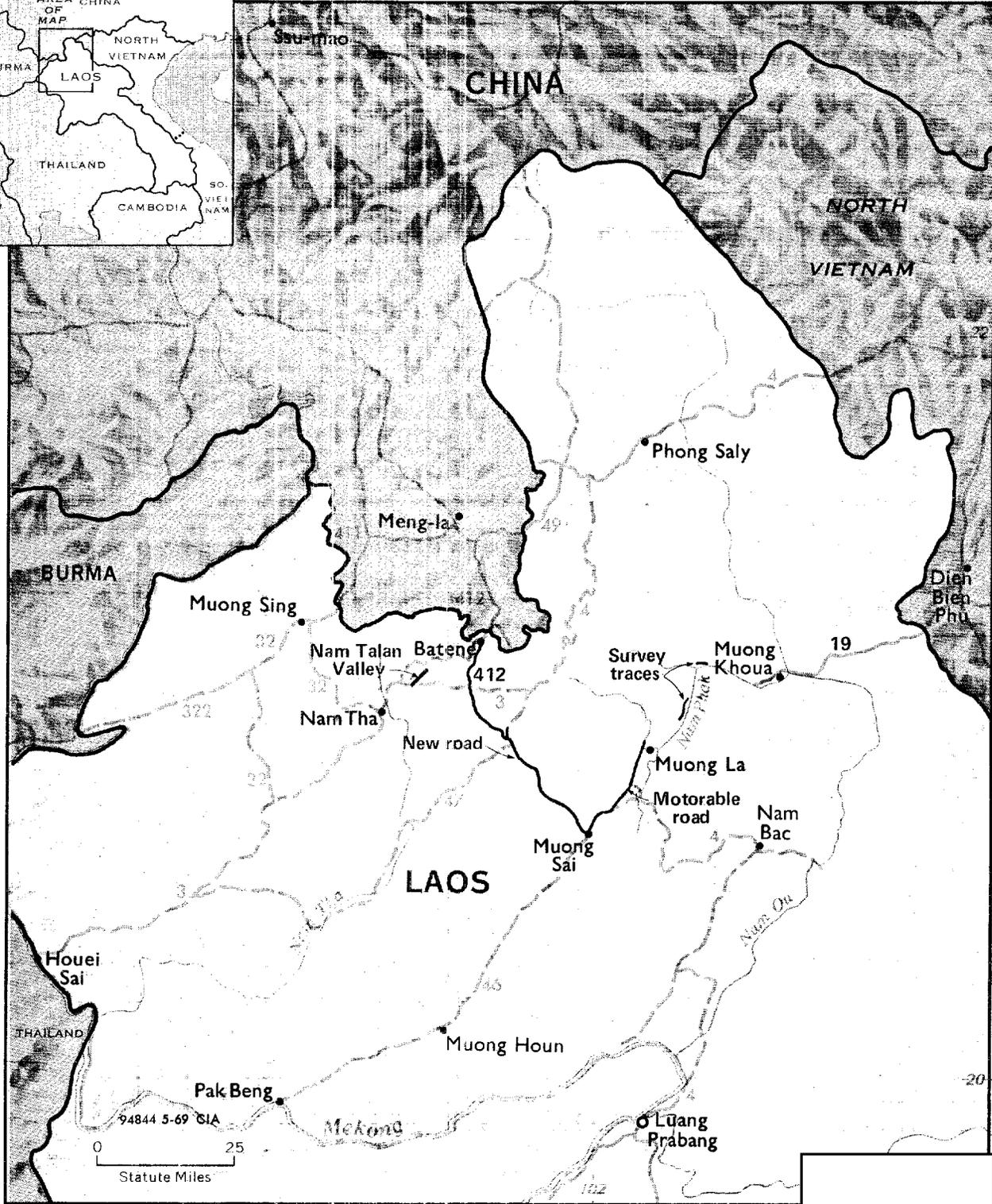
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Northern Laos: Chinese Road Construction Activity Slows



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Laos - Communist China: Chinese roadbuilding in northern Laos continues but the effort has slowed considerably in recent months.

Recent aerial photography indicates that the road from the Pathet Lao stronghold of Muong Sai is now motorable to Muong La, some 16 miles to the north-east. In addition, what appear to be intermittent survey traces were observed in the 36-mile stretch between Muong La and the terminus of Route 19 at Muong Khoua. It is possible that the road could be completed as far as Route 19, an important North Vietnamese supply line, before the normally heavy rains begin in early June.

The recent photography contains no evidence that the Muong Sai road is being extended to the south. The only other current construction activity in north Laos which might involve the Chinese is in the Nam Tha area. Photography last month showed some seven miles of initial trail clearing in the Nam Talan Valley.

[redacted] a joint Pathet Lao - Chinese effort will be made to link Nam Tha with the new Chinese Route 412. [redacted]

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Cambodia: Sihanouk apparently is entering another period of frenetic diplomatic activity, but this time North Vietnam is a target as well as the US.

The full text of Sihanouk's emotional press conference of 30 April indicates that in addition to having second thoughts about how rapidly he should move toward a rapprochement with the US, Sihanouk is once again obsessed with the larger problem of protecting Cambodia's frontiers. In rejecting the recent US border declaration, for example, Sihanouk said that American newspaper stories describing the general nature of the declaration indicated Washington had "reservations" which undermined its utility to Cambodia. Gaining recognition of Cambodia's borders has been one of Sihanouk's principal foreign policy objectives in recent years.

It is still too early to judge how serious Sihanouk is about the "rejection." Creating last-minute hurdles to a course he has already set is characteristic of Sihanouk's negotiating style. In doing so, he may hope to exact some clarification of the US position that he can use to advantage with his neighbors and his domestic critics. At a minimum, a show of obduracy presumably enables Sihanouk to demonstrate to Cambodian leftists, as well as to the Vietnamese Communists, that he is still his own man.

At the press conference Sihanouk also made his most bitter and far-reaching attack to date on the North Vietnamese. Describing the encroachments of Viet Cong and "Viet Minh" elements in northeast Cambodia as typical tactics of the Asian Communists, he even mentioned for the first time the possibility of severing diplomatic relations with Hanoi. He

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talked obliquely of certain assistance which the Cambodian people and "army" have provided the Communists and which presumably may now be withdrawn.

The importance of these veiled threats will not be lost on the North Vietnamese, nor will Sihanouk's call for a widening of the Paris peace talks to include at least representatives of both Cambodia and Laos find any favor in Hanoi. The North Vietnamese have so far insisted that the issues of Laos and Cambodia must not be taken up at Paris.

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Ecuador: The government of President Velasco Ibarra is coming under increasing strain.

Defense Minister Andrade resigned on 29 April under pressure from young army officers. It was the ninth departure from the cabinet since Velasco began his fifth attempt to govern last September. In addition, the President reportedly has received the resignation of the minister of government, but is delaying acceptance in hopes of mollifying leftists who consider the controversial minister their spokesman. Conservative demands for his removal are mounting, however. Velasco relied heavily on the nine cabinet ministers who have resigned and has had a hard time finding appropriate replacements.

Continual strikes and civil disorders, charges of official corruption, and an accumulation of fiscal and foreign trade reverses have also hampered Velasco and emboldened his perennial enemies.

Ecuadorean military chiefs, most of them promoted by Velasco, reportedly continue to support him. Should public discontent be further aroused, however, other military leaders may conclude that Velasco should again be replaced. [REDACTED]

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Morocco-France: Restoration of normal relations between Morocco and France seems likely as one consequence of De Gaulle's resignation.

Relations have been strained since 1965 when De Gaulle demanded that King Hassan remove his minister of the interior, General Oufkir. The latter had been implicated in a scandal involving complicity with French intelligence in the disappearance and presumed death of Moroccan opposition leader Mehdi Ben Barka. Each country withdrew its ambassador in early 1966, and Oufkir was tried in absentia and sentenced to life imprisonment by a French court.

French Foreign Minister Debre recently told Moroccan Foreign Minister Laraki that the return of the French ambassador had been a purely personal matter involving De Gaulle. Other French leaders had preferred normal diplomatic relations. The Moroccan Government and the French community in Morocco both anticipate a rapid warming of relations.

[REDACTED]

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Western Europe: De Gaulle's resignation has set in motion another major currency disturbance in Europe. Almost \$800 million flowed into West Germany this week as pressure increased against sterling and the franc. German Finance Minister Strauss' reported statement on Tuesday that Bonn is prepared to revalue the mark in conjunction with a revision of the value of other currencies accelerated the money flows into Germany. France and the UK lost about \$170 million and \$200 million, respectively. The heaviest foreign exchange speculation is against the British pound. [REDACTED]

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USSR: A rotation of Soviet warships in the Indian Ocean is apparently under way. A Krupnyy-class guided-missile destroyer and a tanker, which have been sighted in the South China Sea, are probably the first units of the new deployment. The last of the Soviet warships that entered the Indian Ocean some six months ago left on 28 April. The Soviets have maintained an almost constant presence in the Indian Ocean since 1967 as part of an effort to gain experience in extended naval operations and strengthen Soviet influence in the area. [REDACTED]

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